# COTY'S ACQUISITION OF HIMS AND HERS HEALTH

*M&A Strategic Analysis*

WESTPEAK
RESEARCH ASSOCIATION
EST. 2014

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*Note: All figures USD

## Company Overview

**Overview:** Coty Inc. and its subsidiaries are global players in beauty product manufacturing and distribution. They operate in multiple segments, offering a range of products like fragrances, cosmetics, and skin care. Their brand portfolio includes Calvin Klein, Gucci, and CoverGirl, among others, sold through various channels, including e-retailers and traditional stores.

**Products and Services:** Coty sells its beauty and wellness products through the prestige and consumer beauty segments. The prestige segment primarily operates on premium brands and target consumers with higher buying discretion. Consumer beauty, in contrast, focuses on providing affordable beauty and wellness products to the general masses.

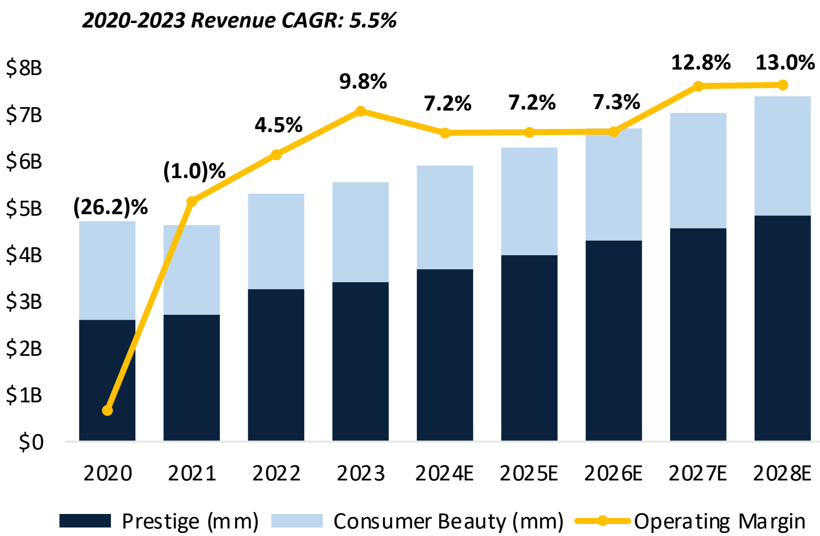
**M&A Rationale:** Coty has a limited focus on the wellness aspect, which focuses on overall health and well-being, and acquiring Hims and Hers provides Coty an opportunity to tap into the domain, a growing telehealth market and expanding its product portfolio, via Hims and Hers acting as a digital extension to their core products.

## Current Market Data (mm)

| | | | |
|---|---|---|---|
| Market Cap | $10,400 | Revenue (FY23) | $5,551 |
| Enterprise Value | $14,360 | EBITDA (FY23) | $1012 |
| Share Price | $11.62 | EBITDA Margin | 18.3% |
| 52 week-high | $13.46 | EV/EBITDA | 12.99x |
| 52 week-low | $9.02 | Forward P/E | 34.32x |
| Cash (Q2-24) | $483.5 | Debt (Q2-24) | $4,150 |

**Currency in USD as of 18/02/2024*

## Revenue Breakdown




## Management Overview

**Sue Nabi, CEO:** Prior to joining Coty, she founded and ran Orveda, new-age luxury skincare brand. During her 20 years with L'Oréal, she presided over such iconic brands as L'Oréal Paris and Lancôme.

**Laurent Mercier, CFO:** He has served as the CFO at Evian Volvic Germany before a three-year-stint in Singapore as CFO for the Asian, Middle Eastern and African markets. He also led Danone's Dairy Turnaround in Europe.

**Gordon Von Bretten, CTO:** He spent five years as an operating partner with KKR Capstone. Before that, Gordon was part of the management team at KlöcknerPentaplast, and a management consultant with at A.T. Kearney.

*Sources: S&P Capital IQ, Bloomberg, Company Filings* hims & hers

## Company Overview

**Overview:** Hims and Hers operates a consumer-centric platform connecting users with licensed healthcare professionals. They offer telehealth consultations for a range of health needs, including sexual health, hair loss, dermatology, mental health, and primary care, along with providing personalized health and wellness products.

**Products and Services:** Hims and Hers offers a diverse range of health and wellness products and services, including prescription medications, over-the-counter treatments, and personalized health kits. The products are sold through an online subscription model and retail stores. Offline retail traffic penetration is minuscule as of 2023.

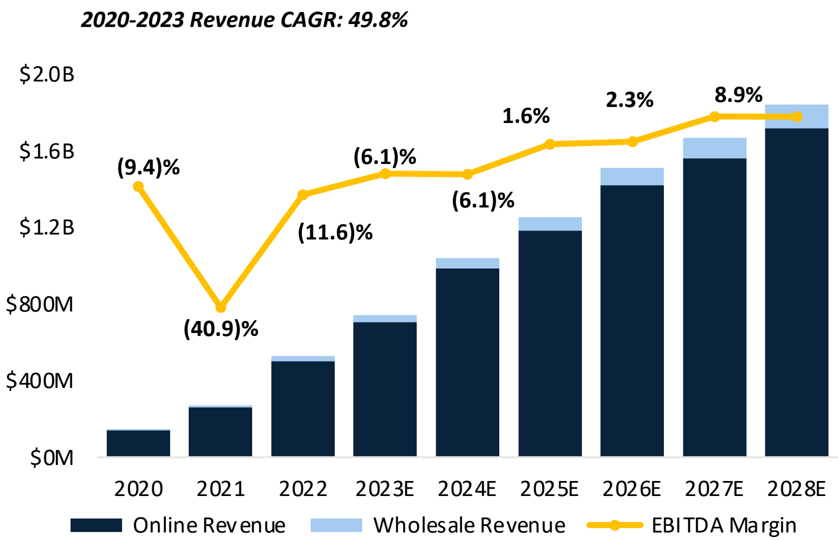
**M&A Rationale:** The challenge in funding operating losses for Hims and Hers, along with scaling the core operations provides a key opportunity. Partnering with Coty also offers broader market opportunities through access to offline and online channels and would lower customer acquisition costs in a highly competitive wellness products market.

## Current Market Data (mm)

| | | | |
|---|---|---|---|
| Market Cap | $2,090 | Revenue (FY22) | $526.9 |
| Enterprise Value | $1,880 | EBITDA (FY23) | $(61) |
| Share Price | $9.87 | EBITDA Margin | (11.57)% |
| 52 week-high | $12.34 | EV/Revenue | 2.37x |
| 52 week-low | $5.65 | Price/Sales | 2.61x |
| Cash (Q3-23) | $212.5 | Debt (Q3-23) | $4.68 |

**Currency in USD as of 18/02/2024*

## Revenue Breakdown




## Management Overview

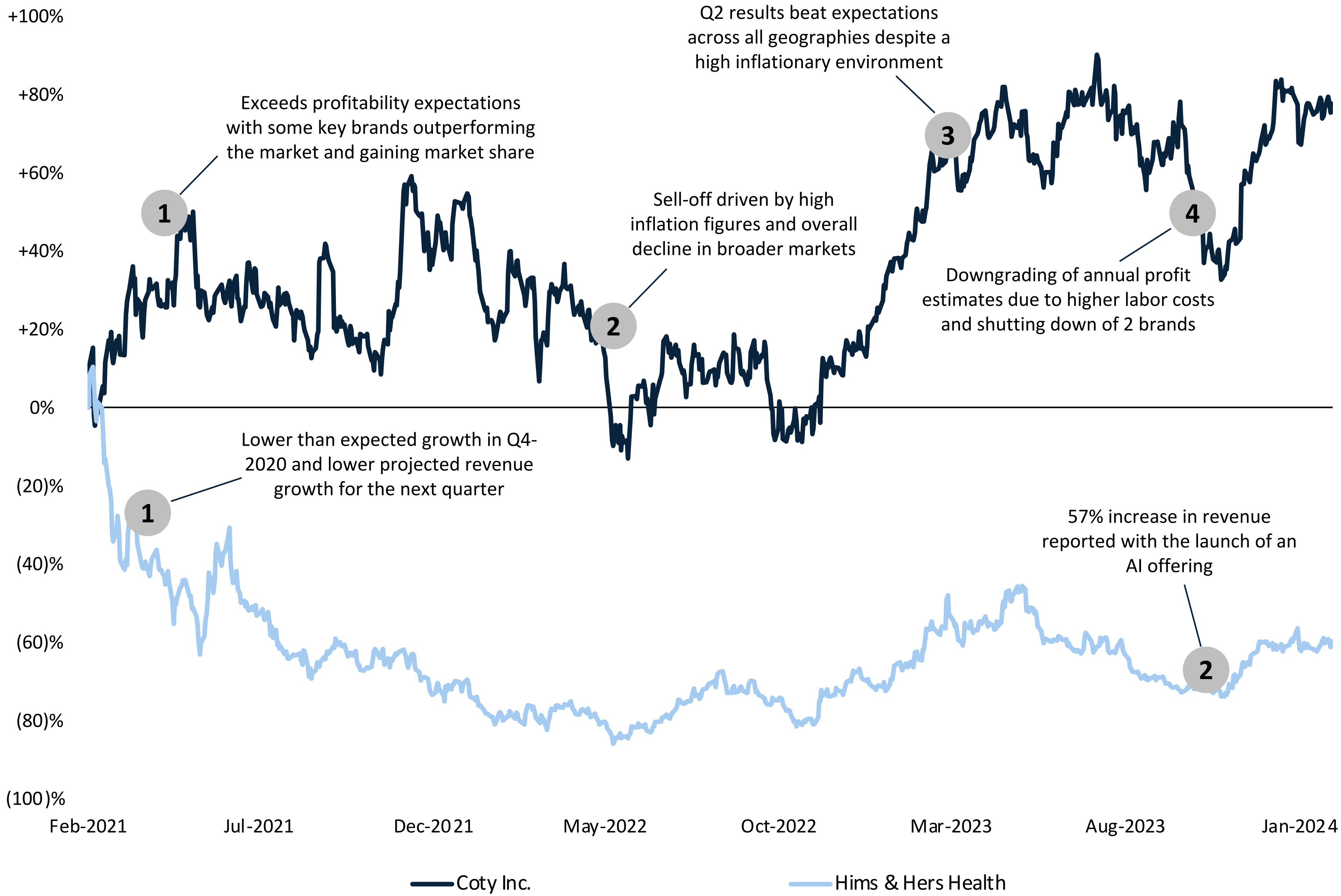
**Andrew Dudum, CEO:** Before Hims, he co-founded startup studio and investment fund Atomic Labs. He has also played an integral role in developing more companies including Bungalow, Homebund, and TalkIQ.

**Melissa Baird, COO:** Melissa previously served as VP Systems and Procedures for Draper James, and also helped build D2C mainstays Bonobos as the VP operations and product management.

**Yemi Okupe, CFO:** Yemi served as a Divisional CFO at Uber, handling services across 60 countries. He has also served in a number of financial leadership positions at eBay and PayPal – including as Divisional CFO of Braintree – and Google

# Stock Price Overview: Hims and Hers Health and Coty

M&A Strategic Alternatives and Analysis



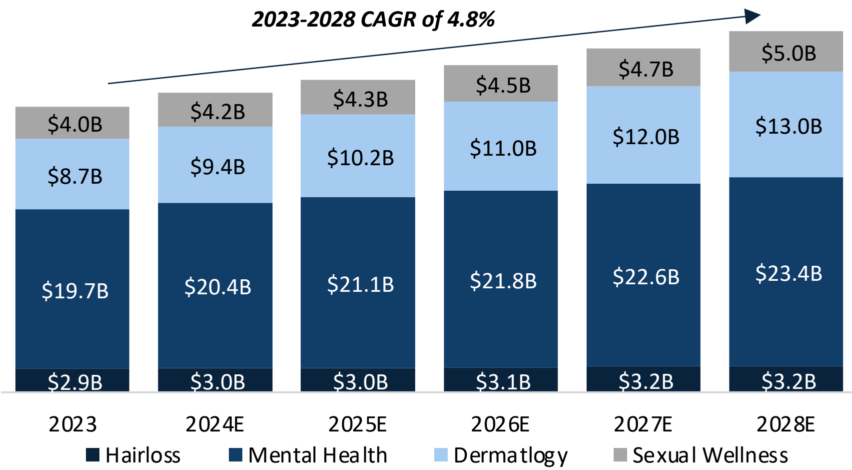



*Sources: S&P Capital IQ, Bloomberg, Company Filings*

# Industry Overview: Telehealth

M&A Strategic Alternatives and Analysis

## Key Industry Metrics



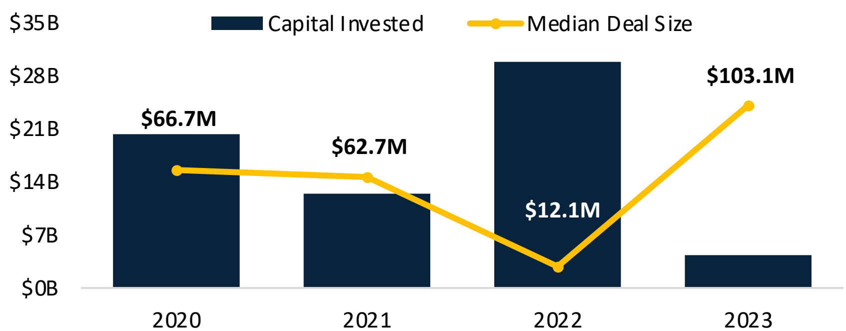

## Key Trends

**Reducing stigmatization of mental and sexual health:** Increasing awareness about mental and sexual health is noticeable, revealing that 21% of U.S. adults experienced a mental or sexual health condition in 2021-22, two times higher than those in 2015-16. The normalization of discussions and de-stigmatization of treatment has increased access to solutions.

**Increasing adoption of personalized virtual care:** Digital solutions adoption has surged since the pandemic, with nearly 80% of hospitals and physicians utilizing telehealth platforms. Telehealth proves to be substantially better in terms of cost effectiveness and accessibility with people opting for tailored treatment plans and access to specialized expertise.

**Shortage of physicians and ageing population in the US:** The US is expected to face a shortage of 37,800-124,000 physicians in the next decade. Rising demand for physicians, workforce shortage and an aging population, underscores the need for enhanced accessibility, affordable solutions and better attendance rates for the patients.

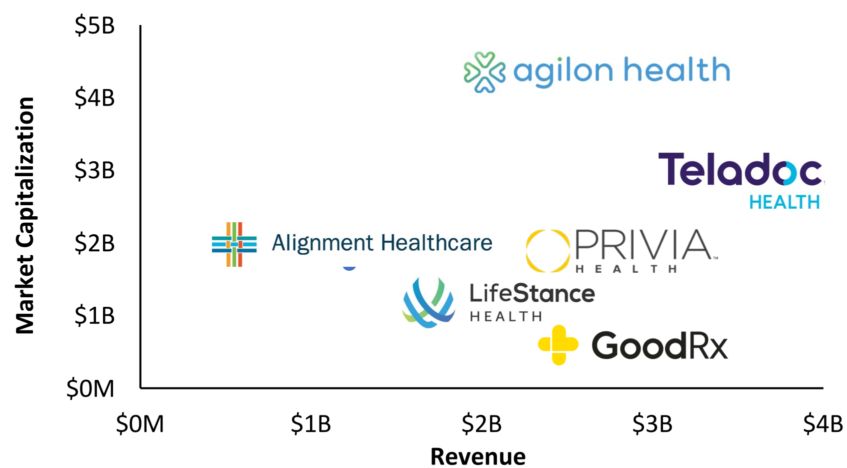
## M&A Activity




- Telehealth M&A experienced a significant uptick from 2020 to Q3-2022, driven by widespread adoption of digital health solutions and increasing public market valuations in 2021-22.
- However, activity plummeted by 85% in 2023 due to market corrections, despite observing higher median deal sizes. The outlook for 2024-25 does not anticipate a return to pre-pandemic levels of deal flow.

## Competitive Landscape

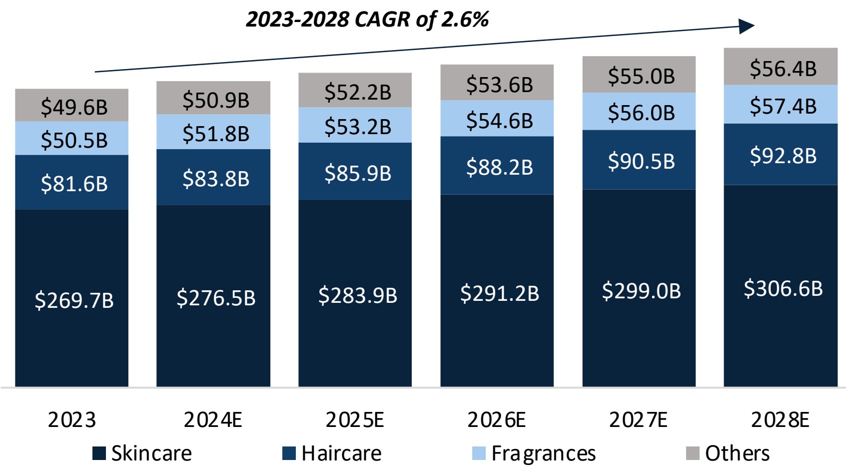
*Highly fragmented industry with a 4-firm concentration ratio of 8%*



# Industry Overview: Beauty and Wellness

M&A Strategic Alternatives and Analysis

## Key Industry Metrics



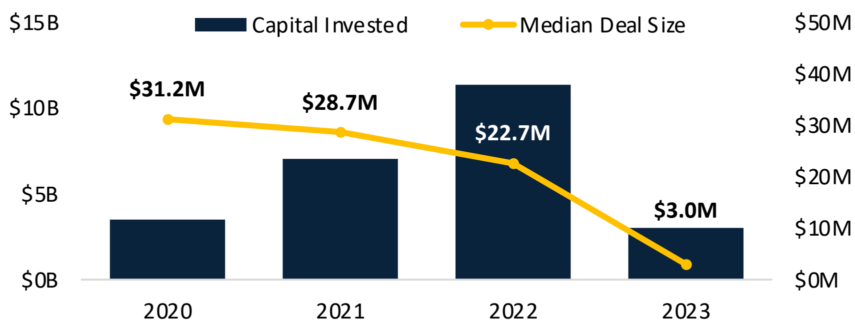

## Key Trends

**Increasing demand for natural and sustainable products:** The industry is witnessing a surge in demand for natural and eco-friendly makeup, with an emphasis on ingredients such as CBD, alpha hydroxy acid and probiotics. Brands are responding by using natural claims, eco-friendly packaging, and certifications.

**Premiumization:** Premiumization allows brands to establish differentiation and avoid commodification of products, especially in fragrance and skin care. Rising incomes in North America and Asia is driving this shift from conventional mass market products. The premium segment is expected to grow at an 8% CAGR, compared to a 5% growth within the mass market.

**Proliferation of social selling and influencer economy:** Social media and e-commerce have revolutionized consumer dynamics by providing direct connections between brands and consumers, with influencer economy growing at a 21% CAGR. The shift towards relatable content is prominent and focuses not just on appearance but also ingredients and brand values.

## M&A Activity




- Deal flow in the Beauty and Wellness industry surged during 2021-22, fueled by acquisitions of direct-to-consumer (D2C) brands, driven by higher valuations and accessible capital.
- However, deal activity plummeted by 73% in 2023, despite previous years' trends, with acquisitions primarily targeting smaller players, reflecting a downward trend in median deal size.

## Competitive Landscape

*Moderately fragmented industry with a 4-firm concentration ratio of 45%*


*Sources: Statista, IBIS World, PitchBook, S&P Capital IQ, Bain & Company*

# M&A Rationale Summary

M&A Strategic Alternatives and Analysis

## Hims and Hers Rationale

**Market Expansion and Access to Omni-Channel Retail:** Coty Inc. possesses a well-established global distribution network and retail presence. For Hims and Hers, being acquired by Coty would entail immediate access to a vast network of physical and online stores, significantly expanding the availability of its products.

**Category and Brand Enhancement:** Hims and Hers' wholesale revenue is minimal, relying heavily on subscriptions, which can be challenging to scale efficiently, as seen with other brands within the domain; subscriber growth often plateaus at a certain threshold. Leveraging Coty's brand expertise could help Hims and Hers enhance their brand over the next 3-5 years.

**Fastened Path to Profitability:** Hims and Hers identifies as a technology company; negative operating margins reflect this fact. Partnering up with Coty provides an opportunity for growth financing, and better deals with suppliers and manufacturers, enhancing their product gross margin profile and achieve a fastened path to profitability in the near-term.

## Coty's Rationale

**Diversification of Revenue Streams:** The acquisition of Hims and Hers would allow Coty to diversify its revenue streams beyond traditional beauty and skincare products. By entering the wellness sector, Coty can tap into a high growth Telehealth market, which could prove to be a sticky revenue stream.

**Technology Integration and Digital Extension:** Hims and Hers brings valuable digital capabilities to Coty, enhancing its online presence and e-commerce strategies. The integration of technology-driven solutions can modernize Coty's approach to consumer engagement.

**Cross-Marketing and Cross-Selling Opportunities:** Exploring cross-marketing and cross-selling opportunities between its existing beauty brands and Hims and Hers' wellness products allows Coty to create unique bundles, promotional campaigns, and collaborative launches, appealing to consumers across the spectrum of wellness.

## Pro-Forma Financial Projections

| | | | |
|---|---|---|---|
| 2024E EPS | $0.21 | 2024E EBITDA % | 7.9% |
| 2025E EPS | $0.31 | 2025E EBITDA % | 8.8% |
| 2024E Accretion/Dilution | (15.1)% | 2024E Debt/EBITDA | 9.2x |
| 2025E Accretion/Dilution | 11.9% | 2025E Debt/EBITDA | 5.6x |
| 2024E Gross Margin | 65% | 2024E Interest Coverage | 1.4x |
| 2025E Gross Margin | 65.4% | 2025E Interest Coverage | 2.3x |

**EPS Growth and Accretion:** The pro-forma EPS in 2024 is expected to be $0.21, which is projected to be $0.31 in 2025 and $0.90 by 2028. The initial dilution is due to negative operating and net income of Hims and Hers, but are projected to be profitable in 2025 itself, driving accretion.

**Margin Improvement:** Gross margins and operating margins are expected to improve significantly, primarily due to Hims and Hers' high gross margins and scalable direct online channel. Operating margins are projected to increase due to cross-marketing cost savings, supply chain optimization and common talent pool on similar products.

**Debt and Interest Coverage:** Issuing debt to acquire Hims and Hers is a key risk in terms of Coty's leverage and their ability to pay interest on a continuous basis. However, the leverage position and metrics for Coty will get more favourable starting 2025, despite the interest coverage remaining low. The main rationale for taking on debt are strong free cash flow projections to repay debt and expectations of interest rates falling going forward.

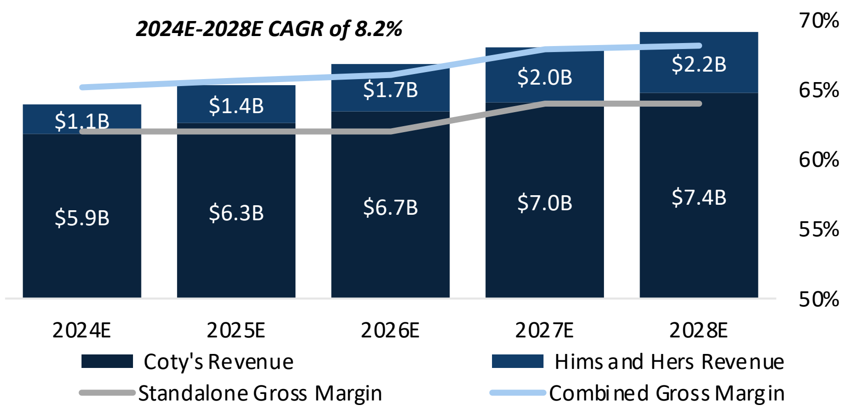
*Sources: Company Filings, McKinsey & Co, S&P Capital IQ*

# M&A Rationale: Diversification of Revenue Streams

M&A Strategic Alternatives and Analysis

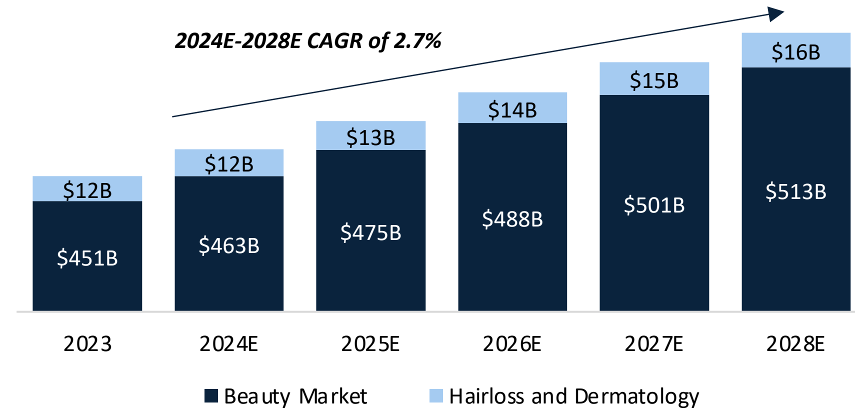
## Higher Growth due to Cross-Selling Opportunities

***Increase in revenue growth by 2.5% CAGR and gross margins by 3.2%-4.2%***



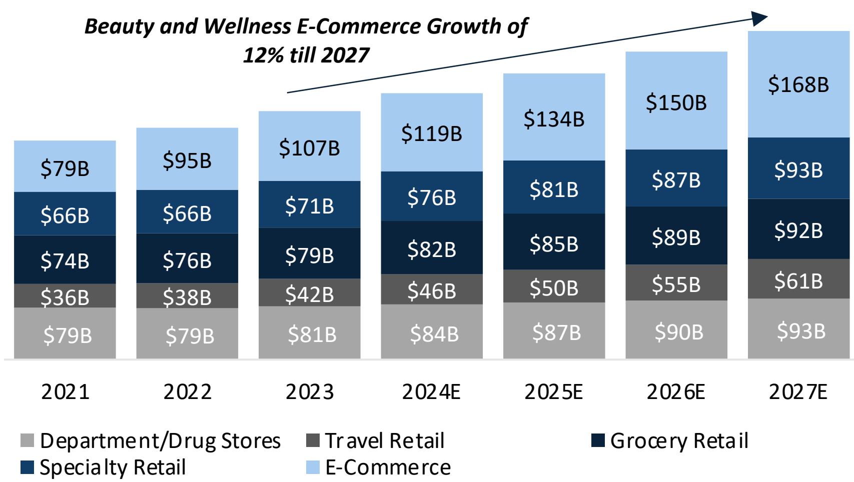

## Expanding Market Reach and Total Addressable Market

***Coty's TAM increases by 2.6%-3.2% till 2028 due to an added customer base***




## Increasing Importance of Direct Online Channels

***Hims and Hers has a D2C platform to offer beauty and wellness products***




## Inorganic Growth and Consolidation of Brands

***Sizeable brands expanding through acquisitions to diversify product offerings***

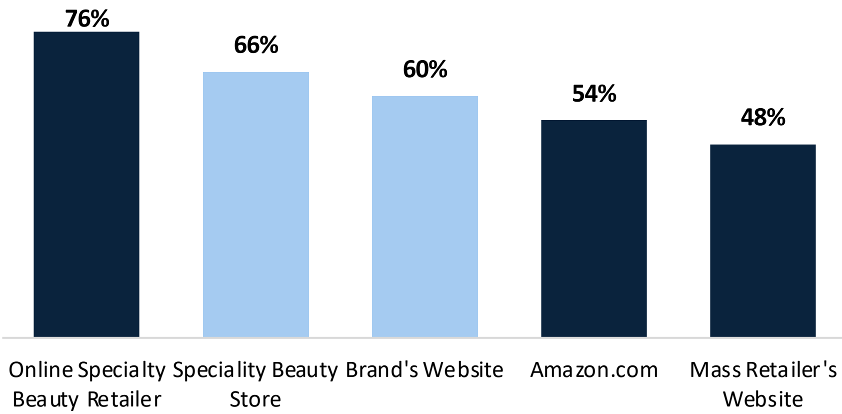
| Target | Acquirer | Deal Size | Rationale |
|---|---|---|---|
| Milk MAKEUP | OBAGI | Acquired for $1.2B in July 2022 | **Building a comprehensive clinical skincare brand** |
| BOXY CHARM | IPSY | Acquired for $500M in October 2020 | **Streamlining product offerings via a subscription platform** |
| NATURIUM | e.l.f. eyes lips face | Acquired for $355M in August 2023 | **Diversification of products with a key focus on community** |

# M&A Rationale: Capitalizing Digital Extension Opportunities

M&A Strategic Alternatives and Analysis

## Leading Purchase Channels for Millennial Consumers

***More than 60% of the responders prefer specialty stores and brand websites***




## Digital Integration and Omnichannel Opportunity

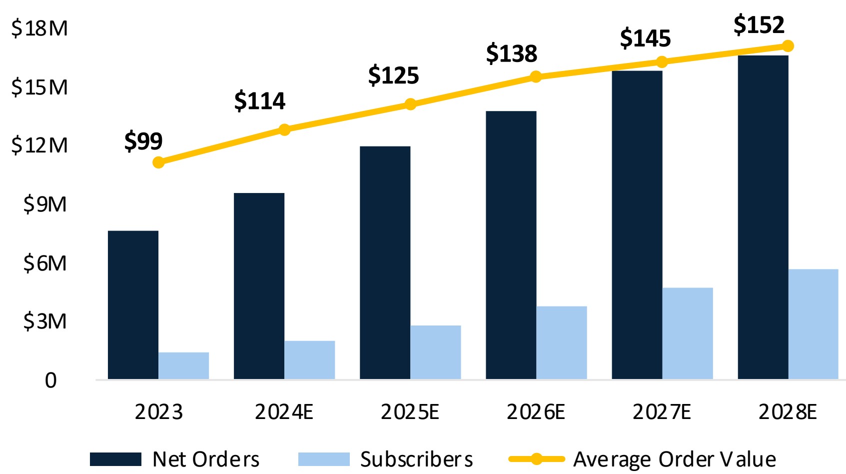
**Enhanced Customer Engagement and Loyalty:** With 74% of global customers using multiple channels to buy cosmetics and fewer visiting physical stores, Hims and Hers provide Coty direct access to consumers seeking personalized health and wellness solutions. This integration of beauty and wellness products fosters a cohesive consumer experience, enhancing engagement and loyalty.

**Data Driven Personalization:** Acquiring Hims and Hers grants Coty access to extensive consumer health data and insights via their platform. This data can be analyzed to understand consumer preferences and behavior, enabling Coty to develop tailored product recommendations and marketing strategies, driving higher growth with more targeted offerings.

**Selected Brand Positioning:** The acquisition enables Coty to position as a holistic beauty and wellness provider, aligning with consumer demand for comprehensive solutions. This strategic move enhances Coty's brand image, appealing to self-care trends and fostering stronger customer loyalty.

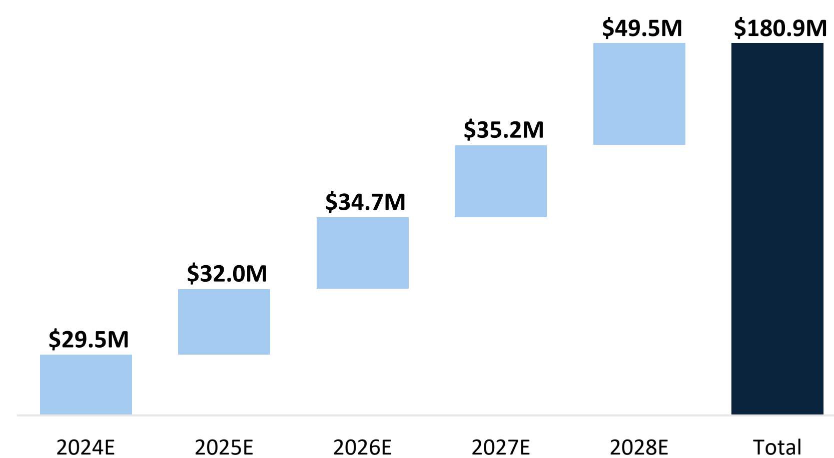
## Proven Market Fit for Subscription Based Model

***Expected increase in AOV, subscriptions and net orders for Hims and Hers***




## Operational Efficiencies through Cost Savings

***SG&A cost reductions due to supply chain optimization and cross-marketing***



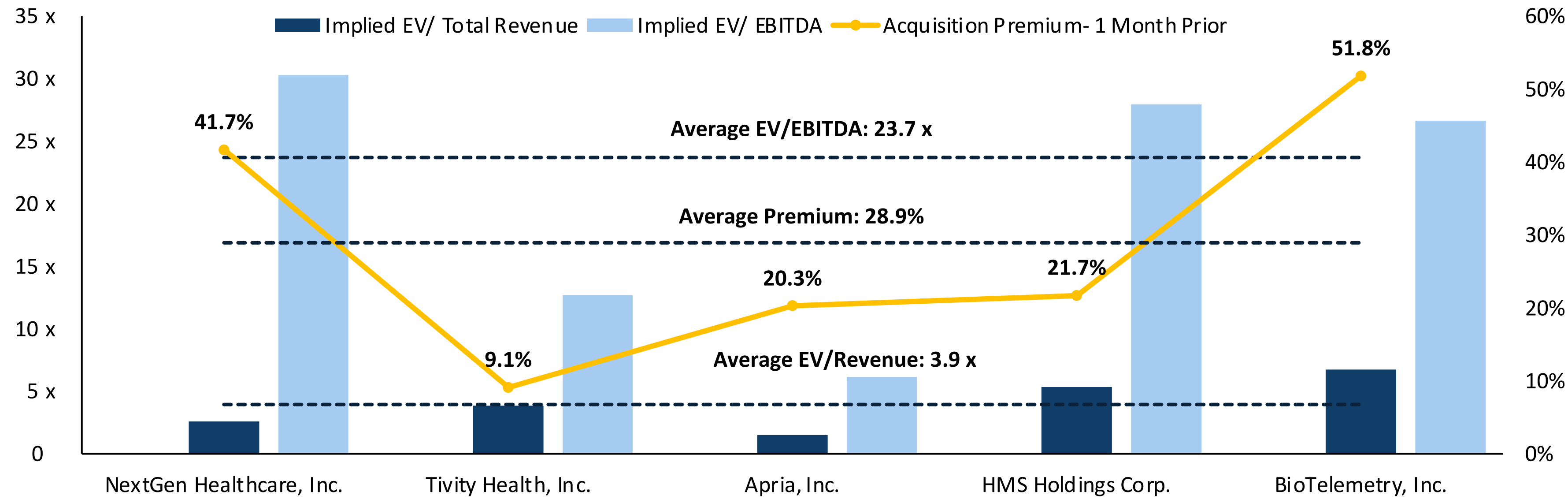

*Sources: S&P Capital IQ, Company Filings, Bain & Co.*

# Relative Valuation: Precedent Transaction Analysis

M&A Strategic Alternatives and Analysis

hims & hers

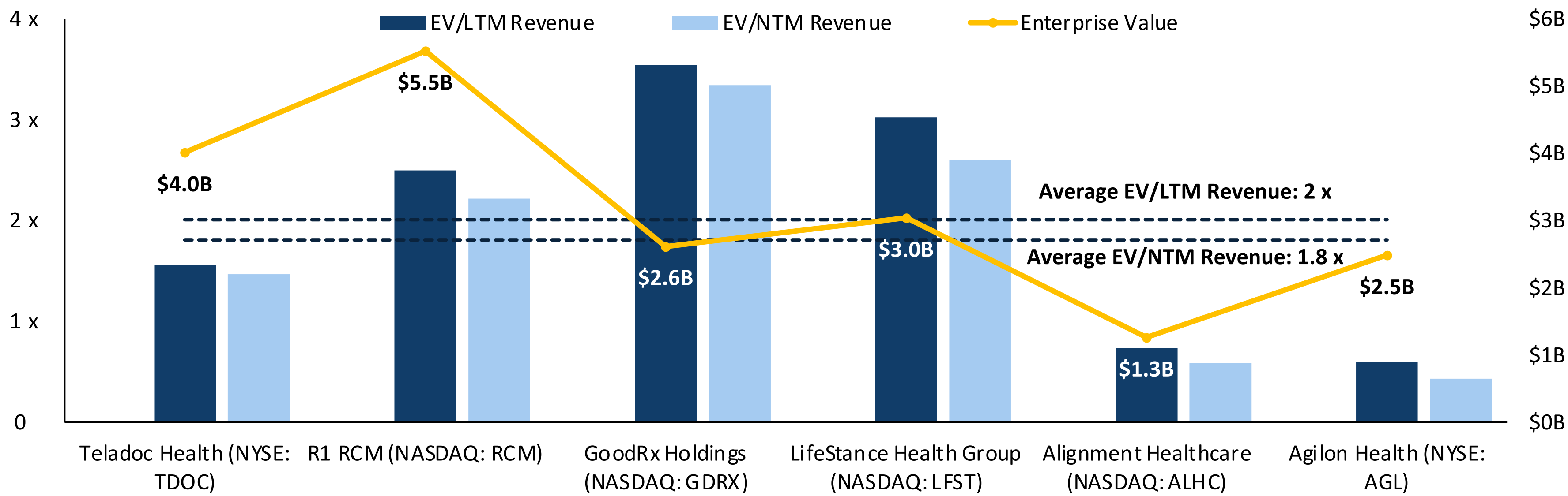
## Precedent Transactions Analysis




| | | | | |
|---|---|---|---|---|
| nextgen healthcare | tivity HEALTH | APRIA | hms | BioTelemetry inc. |
| **$1.7B** acquisition by | **$1.9B** acquisition by | **$1.7B** acquisition by | **$3.4B** acquisition by | **$2.8B** acquisition by |
| THOMABRAVO | STONE POINT CAPITAL | Byram HEALTHCARE | gainwell | PHILIPS |
| **Sep 2023** | **Apr 2022** | **Jan 2022** | **Dec 2020** | **Dec 2020** |

***High revenue and EBITDA multiples yield a price of $15.8 for Hims and Hers, representing a 60% premium over the current share price of $9.9***

## Comparable Companies Analysis




| | Teladoc Health | R1 | GoodRx | LifeStance Health | Alignment Health | agilon health |
|---|---|---|---|---|---|---|
| **Equity Value** | $3.4B | $3.8B | $2.7B | $2.6B | $1.5B | $2.9B |
| **Enterprise Value** | $4B | $5.5B | $2.6B | $3.1B | $1.3B | $2.5B |
| **LTM Revenue** | $2.6B | $2.2B | $737.7M | $1B | $1.7B | $4.2B |
| **NTM Revenue** | $2.7B | $2.5B | $783M | $1.1B | $2.1B | $5.7B |
| **NTM EBITDA** | $356.5M | $664.9M | $223M | $71.4M | $(3.5M) | $(14.3M) |

***Comparable analysis suggests a price of $9.2, based on EV/LTM Revenue of 2x and EV/NTM Revenue of 1.8x, reflecting a 6% downside from the current price***

*Sources: S&P Capital IQ, Pitchbook, Bloomberg*

## Cash Flow Forecast

| | Fiscal Year Ending March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| **Revenue** | **148.8** | **271.9** | **526.9** | **748.8** | **1,064.3** | **1,375.2** | **1,702.5** | **1,976.8** | **2,180.0** |
| *Revenue Growth %* | *80.2%* | *82.8%* | *93.8%* | *42.1%* | *42.1%* | *29.2%* | *23.8%* | *16.1%* | *10.3%* |
| **EBIT** | **(15.1)** | **(115.3)** | **(68.6)** | **(47.7)** | **(67.0)** | **17.2** | **30.3** | **144.1** | **159.0** |
| *EBIT margin* | *(10.1)%* | *(42.4)%* | *(13.0)%* | *(6.4)%* | *(6.3)%* | *1.3%* | *1.8%* | *7.3%* | *7.3%* |
| (-) Tax expense | (0.1) | 3.1 | 0.0 | 10.0 | 14.1 | (3.6) | (6.4) | (30.3) | (33.4) |
| **NOPAT** | **(15.2)** | **(112.2)** | **(68.6)** | **(37.7)** | **(52.9)** | **13.6** | **23.9** | **113.9** | **125.6** |
| (+) Depreciation and amortization | 1.1 | 4.1 | 7.5 | 2.8 | 3.1 | 3.4 | 3.8 | 4.1 | 4.5 |
| (-) Capital expenditures | (1.7) | (0.8) | (2.7) | (5.6) | (6.2) | (6.8) | (7.5) | (8.3) | (9.1) |
| (-) Change in net working capital | (130.7) | 48.1 | 3.0 | 34.3 | 12.6 | (1.3) | 9.8 | (11.5) | 4.1 |
| **Unlevered Free Cash Flow** | **114.8** | **(157.1)** | **(66.9)** | **(74.8)** | **(68.6)** | **11.5** | **10.4** | **121.3** | **117.0** |

## Commentary

Online and wholesale revenue driven by consistent growth in net orders and average order value, with the revenue mix increasing for wholesale revenue.

Operating profit breakeven in FY-2025, with increasing scale and high retention rates.

Low D&A and CAPEX maintained at historical levels due to asset light nature of the operations.

Perpetuity growth rate is assumed to be 2.5% and the exit EV/Revenue multiple is 1.5 x.

Unlevered free cash flows discounted using a WACC of 10.6%

## Implied Value Per Share

| Perpetuity Growth Method | | Exit Multiple Method | |
|---|---|---|---|
| **Perpetuity Growth Rate** | **2.5%** | **Terminal EV/Revenue Multiple** | **1.5 x** |
| PV sum of unlevered FCF | 31.2 | PV sum of unlevered FCF | 154.6 |
| Terminal value | 872.7 | Terminal value | 1,927.2 |
| **Enterprise Value** | **903.9** | **Enterprise Value** | **2,081.8** |
| Add: Cash | 212.5 | Add: Cash | 212.5 |
| Less: Debt | 5.0 | Less: Debt | 5.0 |
| Less: Other EV adjustments | - | Less: Other EV adjustments | - |
| **Equity Value** | **1,111.4** | **Equity Value** | **2,289.3** |
| Shares outstanding | 210.1 | Shares outstanding | 210.1 |
| **Implied Value Per Share** | **$5.3** | **Implied Value Per Share** | **$10.9** |
| Current Price | $9.9 | Current Price | $9.9 |
| **Implied Upside/(Downside)** | **(46.4)%** | **Implied Upside/(Downside)** | **10.4%** |

## Sensitivity Analysis

**Perpetuity Growth Rate** vs. **WACC**

| Perpetuity Growth Rate | 9.0% | 9.5% | 10.0% | 10.5% | 11.0% |
|---|---|---|---|---|---|
| **1.0%** | $5.7 | $5.3 | $4.9 | $4.6 | $4.4 |
| **1.5%** | $6.0 | **$5.6** | **$5.2** | **$4.9** | $4.6 |
| **2.0%** | $6.3 | **$5.9** | **$5.5** | **$5.1** | $4.8 |
| **2.5%** | $6.8 | $6.2 | $5.8 | $5.4 | $5.0 |
| **3.0%** | $7.3 | $6.6 | $6.1 | $5.7 | $5.3 |
| **3.5%** | $7.8 | $7.1 | $6.5 | $6.0 | $5.6 |

**Terminal EV/Revenue Multiple** vs. **WACC**

| Terminal EV/Revenue Multiple | 9.0% | 9.5% | 10.0% | 10.5% | 11.0% |
|---|---|---|---|---|---|
| **1.0 x** | $8.2 | $8.0 | $7.9 | $7.7 | $7.6 |
| **1.5 x** | $11.5 | **$11.3** | **$11.0** | **$10.8** | $10.6 |
| **2.0 x** | $14.8 | **$14.5** | **$14.2** | **$13.9** | $13.6 |
| **2.5 x** | $18.1 | $17.7 | $17.3 | $16.9 | $16.6 |
| **3.0 x** | $21.4 | $20.9 | $20.5 | $20.0 | $19.6 |
| **3.5 x** | $24.7 | $24.2 | $23.6 | $23.1 | $22.6 |

# Accretion/ Dilution Analysis

M&A Strategic Alternatives and Analysis

## Sources and Uses

| Sources of Fund | Amount | % of Total |
|---|---|---|
| Debt Issued to Acquire Target | 895.0 | 39.5% |
| Cash used to Acquire Target | 250.6 | 11.1% |
| Value of Stock Issues to Target Shareholders | 1,118.8 | 49.4% |
| **Total Sources** | **2,264.4** | ***100%*** |

| Uses of Fund | Amount | % of Total |
|---|---|---|
| Stock to Target | 1,118.8 | 49.4% |
| Cash to Target | 223.8 | 9.9% |
| Debt Issued | 895.0 | 39.5% |
| Deal Fees | 22.4 | 1.0% |
| Finance Fees | 4.5 | 0.5% |
| **Total Sources** | **2,264.4** | ***100%*** |

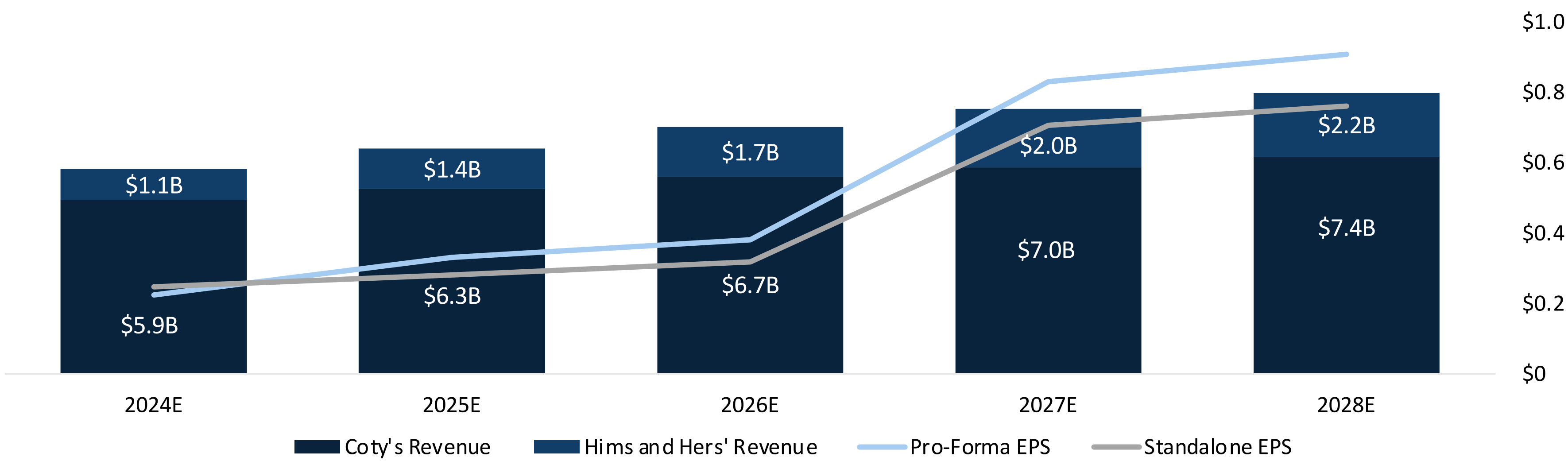
## Transaction Structuring

**Purchase Premium:** Assumed an offer price of $10.7, reflecting a 17% premium on Hims and Hers Health's trailing 1-month average price. The premium takes different valuation methodologies into consideration with a higher emphasis on precedent transactions and comparable companies analysis, with a 30% weighting respectively.

**Recommended Financing:** It is recommended that the acquisition by Coty should be funded primarily through debt and stock, with 10% value offered in cash. Coty's stock's yield is 3.5%, making equity a suitable and cheaper option. The decision to issue debt is due to the lower cash balance of Coty and the assumption of interest rates lowering over the next few quarters. The debt metrics and interest coverage are expected to turn favourable and in-line with industry averages post 2025 despite the additional issuance.

**Financing Justification:** Coty has a relatively low cash balance and cannot afford a cash deal. An all-stock deal would lead to a higher dilution of 18% and Hims and Hers shareholders are more likely to reject the offer due to the lower yield as per Coty's current price and trailing P/E.

## Standalone vs. Combined Entity Performance




*Source: Company Filings*

## Horizontal Integration

**Recommendation:** Acquiring another personal products brand or house of brands across the domains of fragrances, cosmetics, haircare and skincare. Consolidation of brands is a substantial trend in beauty and wellness and Coty has a history of successfully acquiring companies such as SKNN, Kylie Cosmetics, Younique and Good Hair Day since 2016. Potential acquisitions will provide significant opportunities to expand product categories and will solidify Coty's position in both prestige and consumer segments.

L'OCCITANE EN PROVENCE · Edgewell · NU SKIN

**Risks:** Horizontal integration poses significant challenges in the form of operational integration, leadership clashes, with the key risk of self-cannibalization of certain products under the Coty house. Careful and strategic selection of certain products and brands to be included in Coty's existing portfolio is imperative.

## Vertical Integration

**Recommendation:** Vertical integration will allow Coty to streamline their value chain, enabling wider reach through online retail, and product expansion through new, breakthrough formulas. Coty will also have better access to insights and trends and an existing user base in the case of any online platform, allowing them to increase retention and lower the customer acquisition costs going forward.

omy LAB. · persimmon · LIFE NOME

**Risks:** Lack of any sizeable vertical acquisition precedents by Coty could lead to the key risk of integration and obsolescence of one of the processes or technology. Vertical marketplaces, biology research and telehealth platforms would also imply higher CAPEX requirements and profitability concerns for longer periods.

## Corporate Venture Capital

**Recommendation:** Establishing a dedicated team to invest in early-stage ventures operating within artificial intelligence, software development, bio-technology and health-tech provides Coty the access to early-stage trends, technological improvements and innovation from a strategic perspective. The decision involves investing in business leveraging AI and ML to innovate virtual health and wellness, where Coty can make use of the technology and products for their own platform. Other beauty companies like Shiseido, Estee Lauder and L'Oreal also have their venture arms.

ARCAEA · Haut.AI · MDalgorithms

**Risks:** Establishing a team for venture investments can be cost-inefficient due to the high probability of the ventures failing, thus affecting Coty's resources from a financial and strategic perspective. Investing in early-stage ventures also implies a high reputational risk from an investor's standpoint and usually takes 7-10 years for the investments to shape up.

## Strategic Alliance

**Recommendation:** A strategic alliance with Hims and Hers presents Coty with an opportunity to diversify its product offerings and tap into the rapidly growing wellness market. By integrating Hims and Hers' telehealth platform and personalized wellness products into its portfolio, Coty could look to expand its potential consumer base, enhance brand relevance, and attempt revenue growth through cross-selling and cross marketing.

**Unlocking Key Synergies:** Coty can leverage its extensive retail network and marketing expertise to promote Hims and Hers' offerings, enhancing brand visibility and customer reach. Meanwhile, Hims and Hers' digital capabilities enable Coty to tap into new consumer segments and provide personalized beauty and wellness solutions over a long period.

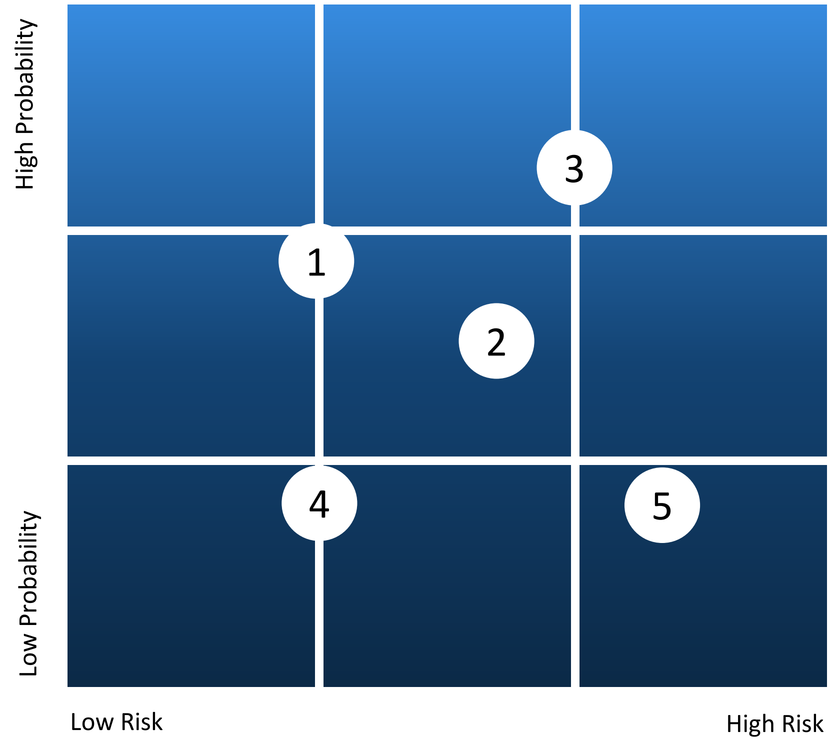
**Risks:** Establishing synergies and seamless integration is going to present a key risk. There is a potential risk of brand dilution due to the integration of distinct brand identities, cultural misalignment leading to internal friction and execution risk in effectively planning and integrating operations. Ideally, such an alliance's success depends immensely on how the partnership benefits both the companies in an equal manner.

# Risks and Mitigants

M&A Strategic Alternatives and Analysis

| # | Risks | Mitigation Strategies |
|---|---|---|
| 1 | **Failed Cultural Integration** | Coty will aim to conduct thorough due diligence to identify key cultural differences. They can establish clear communication channels, provide cultural sensitivity training to employees, and appoint temporary integration leaders with the help of Hims and Hers to facilitate collaboration. |
| 2 | **Debt and Growth Trade-Off** | The transaction will be funded ~40% by debt, which is currently expensive, which limits growth prospects for Hims and Hers due to an innate pressure of being cash flow positive immediately. It could prove extremely difficult to balance aggressive growth techniques and debt payoffs. |
| 3 | **Technological Integration** | Integrating diverse IT systems poses challenges like productivity slowdowns, compliance risks, and customer experience issues. Mitigation should require thorough assessment, a clear roadmap, data security measures, and employee training to ensure smooth transition. |
| 4 | **Dilutive Transaction** | Hims and Hers is currently operating and net income negative, making the transaction dilutive. The synergies are expected to realize over time and the accretion begins in 2025 itself, reaching nearly 19% till 2028 and will be primarily driven by the cost savings and consistent margin growth. |
| 5 | **Interest Rate Variability** | Coty will be taking debt worth $1B to fund the transaction, which in all probability would consist of variable interest rate. Lowering of interest rates is an underlying assumption for the financing, which is a key risk. Coty might need to employ some specific interest rate hedging strategies. |

## Risk Matrix




The primary risk lies in Coty's **integration of technology systems** with Hims & Hers. To address this, thorough system assessments, robust security measures such as **Zero Trust Network, and other data orchestration tools should be employed**. These strategies streamline integration, ensuring a smooth transition and maximizing value creation

*Sources: Company Filings, Harvard Business Review*